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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 001230

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TAGS: [EPET](#) [ENRG](#) [PGOV](#) [EINV](#) [IZ](#)  
SUBJECT: KRG AND GOI AGREE ON OIL EXPORTS

REF: 08 BAGHDAD 3729

Classified By: Acting EMIN Michael Dodman for reasons 1.4 b+d

11. (SBU) Summary: On May 9, the Kurdistan Regional Government's (KRG) Ministry of Natural Resources (MNR) announced that as of June 1, the Iraqi Ministry of Oil (MoO) will allow KRG crude oil exports from the Tawke and Taq Taq fields. In meetings at the MoO on May 10, Ministry officials told Econoff that the deal was really an agreement on the part of the KRG to the terms of the MoO's November 2008 offer to export KRG crude oil. Under the agreement, the State Oil Marketing Organization (SOMO) will be responsible for selling the KRG crude and directing the revenues to the federal government (like all other oil revenues), from which the KRG will receive its normal 17% share. GOI officials stress that the decision to permit the export of oil from the Kurdistan Region does not reflect GOI acceptance of the validity of the production sharing agreements the KRG has signed with international oil firms; the GOI will not be involved in the question of how the KRG meets its contract obligations to the oil firms. End summary.

An Agreement to Agree on the Original Agreement  
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12. (SBU) On May 10, during meetings with Econoffs, MoO officials verified the announcement made by the KRG MNR on May 9 that the Iraqi MoO had agreed that, as of June 1, 2009, crude oil produced in the Tawke and Taq Taq fields may be exported via the Kirkuk-to-Ceyhan pipeline. The MoO officials said that, sometime during the week prior to the announcement, Minister Shahrastani had received a letter from KRG MNR Minister Ashti Harami regarding the KRG's intention to start exports. According to the officials, Shahrastani agreed to allow the exports so long as SOMO marketed the crude and all of the revenues went to the federal government. (Note: This is the position the Minister has maintained since the first agreement on the technical issues to connect the pipeline in November 2008 (ref A). End Note.)

Increasing Oil Exports  
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13. (C) In response to KRG MNR Minister Harami's letter, on May 5 Deputy Oil Minister Luaibi, apparently at Minister Shahrastani's instruction, signed two letters to the MNR, one addressing production from the Tawke field and the other production from Taq Taq. In the letters, the MoO agreed to permit the export of 50,000 bpd from Tawke field as soon as the KRG coordinated with the North Oil Company (NOC) to install metering on the existing pipeline built to connect Tawke to the export pipeline. In the letter on Taq Taq, the MoO refused to accept the KRG plan to truck crude to the K1 pump station at Kirkuk, but encouraged the MNR to complete the pipeline from Taq Taq to K1 as soon as possible. It did not mention the amount of crude to eventually be exported from Taq Taq. (Note: The MNR continues to claim it has permission to truck approximately 16,000 bpd from Taq Taq; since construction of a connecting pipeline is a long-term

proposition, this means there will be no export from Taq Taq unless the MoO changes its stance.) The extra 50,000 bpd from Tawke would increase exports from the north by about 10% and overall Iraqi exports by about 3%. Within 12 to 18 months, the two fields combined could produce approximately 200,000 bpd.

#### How to Deal with the Financial Obligation to the IOCs

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¶4. (C) In discussions with several MoO and GOI officials, all stressed that the decision to permit the export of oil from the Kurdistan Region does not represent GOI acceptance of the production sharing agreements (PSA) that the KRG has signed with international oil companies (IOC). The MoO continues to maintain that those contracts are illegal. Although the MoO previously asked to see the contracts and evaluate them, MoO officials now state they do not need to view the contracts because they are not a party to them and have no intention to honor them. They state that SOMO will sell the KRG crude like all other crude and the revenues will be dealt with like all other oil export revenue, i.e., the KRG will receive 17%.

(Comment: Since the PSAs the KRG has signed with IOCs have not been made public, we are not certain what share of revenue the IOCs are due under their contracts; media reporting places the amount between 25% and 50%. The KRG has not said how it intends to meet these obligations, but clearly the 17% it will receive from these exports will not be sufficient. In other words, the deal that it appears to have accepted will mean a net budgetary loss. End Comment)

Comment

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¶5. (C) While press reporting depicts this development as a change of position by Baghdad, in fact it is primarily the KRG that has backed down by agreeing to accept the revenue terms that Oil Minister Shahrastani had insisted on last November. There are several possible reasons for the change of position on the part of the KRG, to include the possibility that the IOCs that had previously signed PSA contracts may threaten lawsuits to force the KRG's hand. The KRG may have decided that exporting the oil and paying the IOCs out of its operating budget would be less fiscally painful ) and better for its investment reputation - than fighting and potentially losing a lawsuit.

¶6. (C) It is too soon to determine what the agreement on oil exports portends for other Arab-Kurd disputes, including on the fate of the hydrocarbon law. In discussions on May 11, former Oil Minister and current prime ministerial advisor Thamir Ghadhban termed this a &positive sign but downplayed its significance, stressing that it would not necessarily be a precedent for agreement involving other fields. Given the long and complicated history of GOI-KRG disputes over oil, the apparently unfavorable financial terms for the KRG, and the mixed messages regarding the Taq Taq field, we expect the agreement will continue to evolve ) and could ultimately collapse ) between now and June 1.

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